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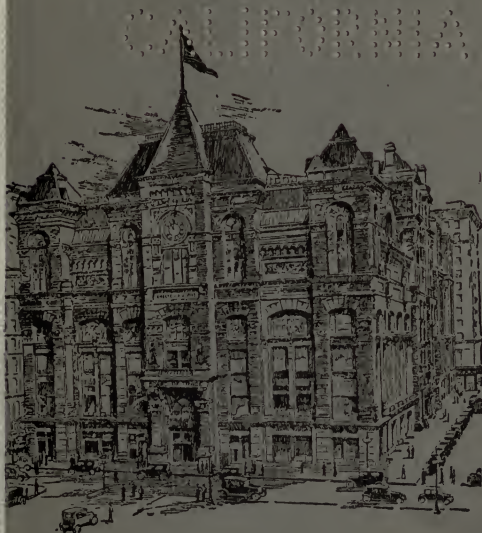
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The Chicago Board of Trade

WHAT IT IS AND WHAT IT DOES



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Rural Problems in the United States
Speculation and the Chicago Board of Trade

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The Chicago Board of Trade

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CHAPTER I.

ECONOMIC FUNCTIONS OF A MARKET.

GRAIN dealers and tax collectors are now and always have been two very unpopular members of our economic society. In spite of all efforts to abolish them, however, no successful substitutes have yet been found. Thus, Lysias, the Greek orator, made a speech in Athens, 300 years before Christ, against the grain dealers there on trial. He spoke for the consumers of Athens, and every word of his great speech has been preserved and handed down to us. The burden of his complaint was that wheat was too dear for the city consumers, and for this unhappy situation the grain dealers should be put to death. From that day to this we have had two recurring complaints against the grain dealers: First, by the consumers that prices

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were too high; second, by the producers that prices were too low. And since blame had to be placed on some one, the "middleman" has been the scapegoat. And now that in the last fifty years the grain market has come to be organized in great central grain exchanges this particular piece of market machinery—the Grain Exchange—is receiving the centuries-old criticisms.

Now these critics sometimes agree on one thing, and that is, in holding the marketing machinery, rather than general market conditions, responsible for changes in price levels. Thus the city consumers were displeased by the tremendous rise in wheat prices beginning in 1916, and lasting up into 1920; consequently they blamed the grain exchanges; and prevailed upon Congress and the President to expend several hundreds of thousands of dollars of the public money in investigating the grain trade, through the Federal Trade Commission and the Bureau of Markets. Then with the general drop in all prices late in 1920 following the World War, the producers of wheat placed the blame for the fall in wheat prices on the grain marketing machinery and called for another investigation by the Federal Trade Commission. However, these various critics do not agree among themselves as to exactly what the market does do, or how it does it, or what it should do.

Thus a prominent farmer, president of his local farm bureau, recently propounded these three questions to the Secretary of the Chicago Board of Trade:

1. "Why are wheat prices always forced down in the fall?"
2. "Why is a bushel of wheat not worth as much one day as another?"
3. "Why is there three times as much profit made on a bushel of wheat after it leaves a farmer's hands as the farmer made?"

While these are all important indictments of our marketing machinery and deserve an answer (and will be fully answered in the following pages), yet they are not so important as this question: What should a market be and what should a market do? On the answer to this question all thoughtful critics agree.

The economic function of a market is to register a price which correctly reflects supply and demand influences. A free, open, competitive market price should and does reflect supply and demand.

The cost of production governs supply. Utility governs demand. And utility plus scarcity determines value. Cost of production, therefore, does not determine value, but is one factor in determining value. Supply and demand determine value. Price is value expressed in terms of money. A fair price is the equilibrium price which balances production and consumption, which balances supply and demand. The correct price is, therefore, the price which will move the whole crop into consumption, without a shortage and without a carryover. A low price (following a big crop) increases consumption and curtails production. A high price (following a short crop) stimulates production and curtails consumption.

Having now set up a standard or ideal by which to judge of the market let us apply this test to that particular market known as the Chicago Board of Trade. And in applying this test let us frankly face the fact that the forces of supply and demand are working through human agencies, powerful and alert human agencies, these on one side wanting and seeking lower prices; those on the other side wanting and seeking higher prices. "Bargaining Power," in short, must be recognized as doing its utmost to thwart the "free, open and competitive" workings of the law of supply and demand. In the next chapter we will examine the physical facts which make Chicago a grain market; in the third chapter we will explain the market machinery of the Chicago market; in the fourth chapter we will apply the above economic tests of a market to the workings of this machinery and see whether or not the Chicago Board of Trade can fairly meet these tests.

CHAPTER 2.

CHICAGO AS A GRAIN MARKET.

A GLANCE at the Census map of the United States furnishes one reason why Chicago is America's largest grain market. It will be seen from this map that the "center of production" of wheat, oats, corn and other grains has been traveling steadily westward for many decades. Now the center of wheat production is in Iowa, some 300 miles from Chicago; oats, also in Iowa, 200 miles from Chicago; corn, in Illinois, 200 miles from Chicago. Added to this fact of geographic location in the heart of the world's greatest agricultural empire is the unparalleled system of transportation by lake and rail. About 400,000,000 bushels of grain are received at Chicago each year.

This is a large volume of grain. But a still larger volume, in total aggregate, now flows to the rival markets in the same area. These competitors are, ranked in order of importance, Minneapolis, Duluth, St. Louis, Kansas City, Milwaukee, Omaha, Peoria, Toledo, Detroit. These rival markets take each year a total of some 800,000,000 bushels. The receipts of grain at Chicago are still double those of her nearest rival. There is only one force which will move this vast volume of grain to Chicago, namely, the Chicago price.

COMPETING MARKETS.

These cities named above, and many smaller ones known as "interior markets,"

have established grain exchanges of their own. While there are now some forty grain exchanges in the United States, counting big and little, the following are those which come into most direct competition with Chicago: Minneapolis Chamber of Commerce; Duluth Board of Trade; St. Louis Merchants Exchange; Kansas City Board of Trade; Milwaukee Chamber of Commerce; Omaha Grain Exchange; Peoria Board of Trade; Toledo Produce Exchange; Detroit Board of Trade; Cleveland Grain and Hay Exchange; Cincinnati Grain and Hay Exchange; Indianapolis Board of Trade; Little Rock Board of Trade; St. Joseph Grain Exchange; Atchison Board of Trade; Fort Worth Grain and Cotton Exchange; Louisville Board of Trade; Memphis Merchants Exchange; Topeka Board of Trade; Wichita Board of Trade; Salina Board of Trade; Hutchinson Board of Trade; Oklahoma City Board of Trade; Enid Board of Trade; Houston Grain and Hay Exchange; Denver Grain Exchange; Sioux City Grain Exchange; Superior (Nebraska) Board of Trade; Des Moines Board of Trade; Cairo Board of Trade; Lincoln Grain Exchange.

As illustrating the aggressive nature of the competition of these interior markets two cases may be cited, Lincoln and Des Moines. In the fall of 1920, in certain grain papers, full page advertisements of these, and other markets, appeared. The Lincoln Grain Exchange advertisement made the following claims: Federal inspection; Official weights; Railway facilities; Tributary to producing area; Storage facilities; Flour milling facilities; Grain industries

(meal, hominy, feed, macaroni products, etc.) ; finally, the Grain and Milling interests "have organized the Lincoln Grain Exchange." Similarly the Des Moines Board of Trade in the same paper, set forth the following advantages of this central Iowa market: Geographical center of grain area; Transportation system; Inspection and Weighing facilities; finally, "back of Des Moines' great natural advantages . . . the Des Moines Board of Trade."¹ It is worthy of note in passing that these two grain exchanges lay special stress on the advantages to a shipper in dealing with an organized market. There is obviously a protection here to the country shipper which is conspicuously lacking on the unorganized market. It may here be stated positively, without fear of successful contradiction, that the grain trade as now conducted is one of the most competitive businesses in the United States.

At this point we are ready to look at the Chicago Board of Trade as a piece of market machinery.

¹Quoted from the Cooperative Manager and Farmer, November, 1920, pp. 13, 27.



The Floor of the Chicago Board of Trade.

CHAPTER 3.

MARKET MACHINERY OF THE BOARD OF
TRADE.

LIKE all important grain exchanges, the Chicago Board of Trade is a corporation. It holds its charter from the State of Illinois and is, of course, subject to the laws of that State. The Board itself does no trading. It has no interest in price changes. The Board of Trade merely furnishes (1) a place to trade; (2) rules of trading; (3) market information. The members as individuals trade with one another, either as principals or as agents for thousands of outsiders.

EQUIPMENT.

The Board furnishes a building for trading purposes. The trading room, 144 by 161 feet, has large windows to furnish ample light for the 52 cash grain tables (some of them accommodating four traders each) ranged along the east side. There are four circular "pits" to accommodate those engaged in future trading. Elaborate means are employed to secure and disseminate market information rapidly and accurately, to all interested. There are about 100 telephones and 150 telegraph instruments on the trading floor. Large blackboards display the latest information about grain prices in all other important markets; Exports; Imports; Visible supply; Movements of grain (receipts and shipments); In and out inspection at Terminal Elevators. A large weather map, furnished by the United

States Department of Agriculture, shows each morning the country's weather—wind direction, precipitation, clear or cloudy, and barometer. In short, the market information discloses the factors affecting either supply of or demand for grain. All traders on the floor are trading with their eyes wide open. Utmost publicity is given to the many supply and demand factors.

OBJECTS.

The objects of the Board of Trade are set forth in its rules, as follows:

- (1) To maintain a commercial exchange.
- (2) To promote uniformity in the customs and usages of merchants.

- (3) To inculcate principles of justice and equity in trade.

- (4) To facilitate the speedy adjustment of business disputes.

- (5) To acquire and to disseminate valuable commercial and economic information.

- (6) To secure to its members the benefits of cooperation in the furtherance of their legitimate pursuits.

RULES.

There is no secrecy about the rules of this organization. They are published in full in the large Annual Report of the Board of Trade and in that form distributed to all libraries and institutions interested. They are also published in booklet form and distributed to grain dealers, shippers, farmers, and other parties making requests for them. The charter of the Board gives it certain general powers. But the rules, as grown up during the past sixty years and more, represent the actual regulations under which

the Board governs its affairs. The rules are adopted by the members, by a majority vote, and are constantly being changed from year to year to meet new conditions. The Initiative and Referendum—now so popular as a democratic system of law making—has been in use on the Board for a much longer period than it has in any of our States. The administrative work of the corporation is left with its board of 18 directors, and with the various committees. Among the most important committees may be named the following: Committee on Arbitration (to hear and settle business disputes, swiftly, cheaply, justly); Membership Committee (to approve applications for membership and recommend them to the board of directors); Warehouse Committee (to see that public storage facilities are meeting public needs); Market Report Committee (to see that no rumors or false news of any kind get into circulation and that attempts to manipulate the market by these means be frustrated and punished).

MEMBERSHIP.

The two conspicuous things about the membership here are (1) the large number of members—over 1600; and (2) the many and conflicting interests represented by the membership. The large number of members makes domination of the Board by any small clique or combine extremely difficult if not impossible. About 1200 of these members live in Chicago, while the other 400 live in some 32 different States or countries. This wide scatterment would make a “combine” all the more difficult. There is no limit to the number of members. Again,

these members represent the producers and consumers in about equal numbers. About 100 firms—and this list includes the oldest firms on the Board—are Receivers and Shippers, i.e., primarily Commission Merchants who receive consigned grain from the country and sell it on a commission basis. Their interests are bound up with the producers and the country shippers. They seek the highest possible price. Their trade comes from two classes of shippers—independent elevators and farmers' elevators. Fifty-six per cent of the grain received at Chicago comes from farmers' elevators. Another group reaching out into the country is the line elevator company. This group also seeks to sell at high prices. The big millers, the exporters, the feed men, the maltsters, the oats products houses, the corn products people, all seek to buy at a low price. The most powerful single group is the terminal elevator group, having the advantages of large capital, great credit, and huge storage facilities. This group, however, is both a buyer and seller of grain and so cannot be counted on to line up with either the high-price sellers or low-price buyers.

FARMERS' MEMBERSHIPS.

No farmers' company has ever been refused membership in the Board of Trade. Like any other company, it is required to have financial stability, good character, and must agree to obey the Rules of the Board. At present there are two farmers' companies holding membership—one is in Illinois, and one is in Canada—a subsidiary of the

powerful United Grain Growers, the largest cooperative concern in North America.

THE ANTI-REBATE RULE.

One practical difficulty in the way of some farmers' cooperative concerns, as now organized, in obtaining membership on the Board of Trade is the board rule forbidding any commission firm to rebate any part of the regular commission back to the country shipper. This is to guarantee competition on an equal footing by all members when it comes to selling grain. This rule, of course, is in conflict with the "patronage dividend" in use by some country elevator companies. Farmers' companies, however, can find a way around this rule, if they desire to, by a proper distribution of their stock on the basis of the business done. Or there is one other way around this rule, and that is for enough farmers' companies to join the Board to form a strong block of votes; then by securing adherents from other interests to have the anti-rebate rule altered or repealed.

COST OF MEMBERSHIP.

It is customary for new members to buy memberships from retiring members or from the estates of deceased members. Memberships for sale are posted on the bulletin board and go to the highest bidder who can meet the membership requirements. The market price is around nine or ten thousand dollars a membership. There are 100 or more transfers every year.

SUMMARY.

The Board of Trade as a corporation furnishes certain market machinery for the

ase of its members. This corporation is governed under democratic rules of self-government. In voting power, the "small business men" greatly outnumber the "big business men."

The way this market machinery operates will be discussed in the next chapter.

CHAPTER 4.

HOW THE MARKET MACHINERY WORKS.

AT first glance the test of registering supply and demand looks like a simple one indeed. A prominent member of one of our agricultural colleges, for instance, recently published this statement in a bulletin: "The demand for wheat is fairly constant and the supply can easily be ascertained these days with telegraphs, cables and wireless. Then why not a fairly steady price for wheat based on supply and demand?" But the subject is not so simple as that. A little effort at honest, clear, and sustained thinking will show the complex nature of the subject. The first question is, What is supply? Is it the crop? If so, no one knows exactly what that is, and even the Government crop estimates change from month to month. Does it include the carry-over from the old crop, and if so, how much is that? Does it include the crop in the rest of the world, particularly of our five biggest competitors—Canada, Argentina, Australia, India, and Russia? But here the new crop is being harvested (in one or more countries) every day in the year, so that the "supply," meaning the "crop," is literally changing every day in the year. Traders do not face the actual supply, but the estimates of the supply, and these estimates change daily—even hourly—with new information.

As a matter of fact "receipts" at the market constitute a more important "supply" factor than the "crop," and back of "re-

GOVERNMENT REPORT

TOTAL PRODUCTION		(000)	CONDITION	YIELD PER ACRE		ACRES
OCT. 1, 1920 INDICATIONS	DECEMBER ESTIMATE 1919			1920		
				1919 DEC. 15L BU.	1920 OCT. 1, 	

DUE FRIDAY, OCT. 8, 2:15 P.M.

Government Monthly Crop Report.

ceipts" is the so-called "visible supply"—grain actually in terminal elevators. Back of this is the estimated holding in country elevators (some 20,000 of these houses); and back of these is the estimated holding on the farms (some two or three million of these). But the farm holdings are partly for seed and feed, and hence are a very indefinite "supply" factor. Indeed, the farmer himself may change his mind about the amount of wheat he will sell and the time he will sell. Obviously, then, the "supply" of merchantable grain which may come to the market, which is important in price making, is not definitely known, and must be estimated from day to day by the trade according to available information.

Neither is the demand "fairly constant," as the bulletin quoted claims. The biggest buyers are the millers, since most wheat goes into bread. Thus the consumption of wheat by American mills in July, August, September and October of 1920 was 50,000,000 bushels less than for the same period of 1919. Flour sales had fallen off, and wheat purchases fell off accordingly. Again the exporters are important buyers, since they take our surplus and it is the surplus which so largely determines the price of the whole crop. Thus the largest overseas buyer of American wheat bought heavily the first half of 1920. This buying stopped absolutely on July 29, 1920, and during the next three or four months not another bushel of American wheat was taken by this buyer. At the end of this period this buyer was able to turn to Argentina and Australia and secure

high-grade wheat below American prices. Demand is not constant—quite the contrary. Sometimes demand can only be stimulated by price concessions; this is always true in the face of a big surplus. Demand is also affected by the use of substitutes and alternates. In human food, rye bread, or substitutes for bread, may be used more freely. For animal feeds, mixtures containing more cottonseed products, or corn or oats or linseed products and less flour mill by-products may be used. Students of markets and not of maxims appreciate the wide range of substitutes and alternates for wheat in human and animal nutrition, and the consequent fluctuations in the demand for wheat. When the world has a crop of 3,000,000,000 bushels—as it often does—there is “demand” enough to use it all. And when the world has a crop of 4,000,000,000 bushels—as it sometimes does—there is also “demand” enough to take it all. Demand is and must be flexible, and is in fact never constant.

THE MARKET TEST.

We have come far enough on our journey to see that the “supply and demand” test is only superficially simple. Facing the realities of life, we must admit that to apply this test to any market in such a way as actually to find out the truth is a job that cannot be done with statistical and mathematical accuracy. As a concrete background to this market test, let these simple facts as to the supply side of the market be borne in mind.

(1) In the year 1890 the United States wheat crop was 399,000,000 bushels.

(2) Ten years later, with 14,000,000 more mouths to feed in this country, the crop had increased by 122,000,000 bushels.

(3) Five years later, with eight million more mouths to feed, the crop had increased by 170,000,000 bushels.

(4) Five years later, with eight million more mouths to feed, the crop had fallen off 57,000,000 bushels.

(5) Again, five years later, with five million more mouths to feed in the United States, the crop increased by 390,000,000 bushels.

Truly, both "supply" and "demand" are and must be very flexible factors. For the output of farms, unlike the output of factories, cannot be definitely controlled, regardless of wind and weather and insect pests, to meet the estimated "demands" of consumers.

TESTING THE "SUPPLY" FACTOR.

What constitutes the supply of wheat? As just stated in the preceding pages, the term "supply" is a complex and difficult one to measure. Supply is both psychological and physical. It is psychological, to the extent that it is merely the buyer's or seller's opinion or estimate of the amount of merchantable wheat on the market or ready to flow to the market. It is physical to the extent that it is a definite and stated number of bushels of merchantable wheat for sale. In reflecting the purely physical factors of supply, the Board of Trade wheat price reflects these three distinct aspects of supply, namely, (1) crop, (2) the visible supply, and (3) receipts at the market. Receipts have the most immediate effect on price;

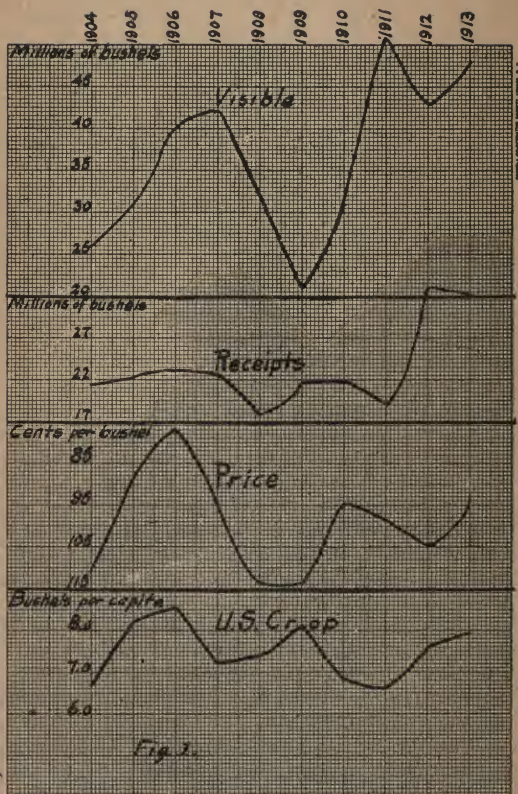


Chart I.

Price of Cash Wheat for Ten Years, Chicago Board of Trade, and the three most important physical factors of supply which affect price.

visible supply ranks second; the crop yield, as announced monthly by the United States Bureau of Crop Estimate is the underlying or third influence on price levels. To answer the question, therefore, whether or not the Chicago Board of Trade market price for wheat does correctly reflect the supply of wheat, it is necessary to show whether or not this price does rise and fall with corresponding changes in these three supply factors. This is best shown in the form of a graph. Ten normal years are taken as a test, 1904 to 1913, inclusive, years free from wars and subject to one minor panic. Judged by this fair test (see the accompanying graph) it is seen that the price of wheat on the Chicago Board of Trade does follow the law of supply and demand (Chart I).

THE LIVERPOOL PRICE.

THE Liverpool price of wheat is of prime importance, since it seriously affects the ebb and flow of export grain from the seaboard. This, in turn, at once affects the seaboard's bidding on the Chicago market. In this manner Liverpool buying is reflected back to the Chicago market as a demand influence, and, also, in turn, as an influence on the three physical factors of Chicago receipts and visible supply.

STATISTICAL POSITION.

The statistical position of the market, as it is called, means the market conditions, national and international, which are expressed in definite statistics. In other words, it means the physical factors which are visible and are matters of public infor-

mation. It sometimes happens, however, that the statistical position may be "strong" and the actual market "weak." This happened in the fall of 1920. The statistics in the early fall showed a hungry Europe facing a very ordinary exportable surplus. This meant, obviously, a strong market. But certain invisible factors, not shown by the statistics, began to enter in and spoil the "strong" market. It developed, for instance, that the biggest buyer, Great Britain, had quit the market in July, for several months. This meant a big slump in the demand. This meant, by the same token, a supply in excess of the actual, manifested demand. In short, it meant a fall in price. No chart of statistics showing "Supply and Demand" can represent all the psychological elements on the actual market. But actual market fluctuations are due to all these supply and demand factors, both psychological and physical. To those who are ignorant of actual market conditions and influences, these price fluctuations, although genuine supply-and-demand fluctuations, seem to be arbitrary and the conscious and deliberate work of speculators and gamblers. Such a criticism of the market has never been made by a man who has spent several years on the market. Indeed, one of the interesting things about the Board of Trade is the group of men—none of them rich—who have been active members there for fifty years or over. These venerable traders are very firmly convinced, by the abundance of their experience, that price fluctuations—even great changes in price levels—are, in fact, due to natural supply and demand in-

fluences. In this market, as in every other kind of market, the powerful bargainer has a certain advantage over the weak bargainer, yet even the powerful bargainer can exercise but little and temporary artificial control over supply or demand. The rules of the market are, in fact, made by the small dealers (who are in the majority) to protect themselves against just such a possible domination by large interests. The same cannot be said of the tobacco or wool market, for instance, or any other unorganized market, for there small groups of men may and often do dominate the market.

CASH PRICES NOT GOVERNED BY FUTURE PRICES.

Following the re-opening of the Chicago wheat pit, July 15, 1920 (after being closed about three years), there came several weeks of a very narrow market—a market, that is, with few buyers and sellers in it. A narrow market always means wide fluctuations in price, as explained a few pages later on. Hence, following July 15, 1920, the country witnessed unprecedented price fluctuations in the wheat pit, aggravated by the further conditions that the whole world was recovering from four years of war, and that a general post-war price recession had set in. Instead of the usual daily range of two or three cents in future prices of wheat, some days saw a range of seven or eight or even ten cents.

Before the World War we had what may be called a normal future market on the Chicago Board of Trade. During the months following the World War we had

what may be called an abnormal future market on the Board of Trade.

A normal future market is one in which the future price ranges higher than the cash by about the amount of the "carrying charge" on the grain (that is, storage, insurance, interest). Such a normal market is illustrated by the graph below, Chart 2, showing one week's market in the year 1911.

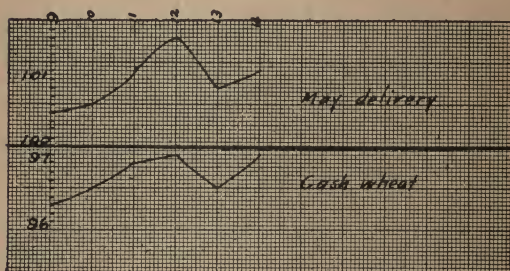


Chart 2.

Normal Futures. One Week of Wheat Prices, Cash and Futures. Chicago Board of Trade, January 9 to 14, 1911.

An abnormal future market, is illustrated by the graph, Chart 3, on following page, showing one week in October, 1920—a period of drastic readjustment of prices and wages throughout the world.

The error back of much reasoning about the Board of Trade is the belief that future price controls cash price. And since the future price is made in the pit, largely under speculative trading, the conclusion is reached that the cash price is a mere football of speculation. We have seen, in the preceding pages of this booklet, that cash

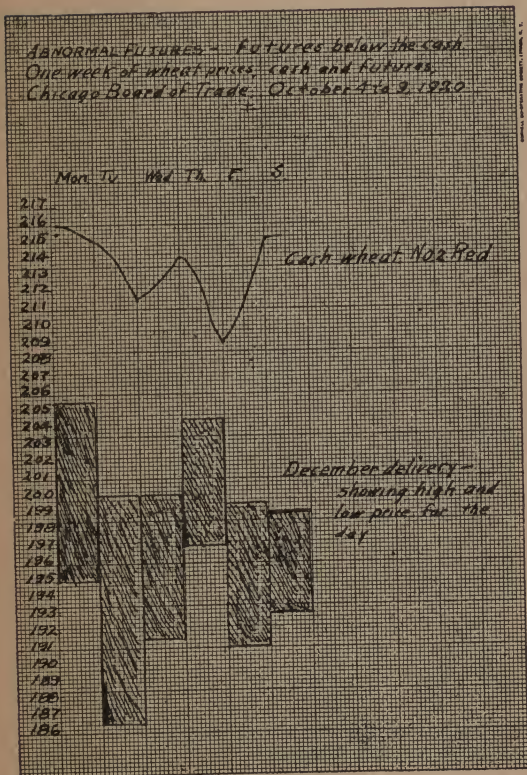


Chart 3.

Abnormal Futures. Futures Below the Cash.
One Week of Wheat Prices, Cash and Futures,
Chicago Board of Trade, October 4 to 9, 1920.

prices reflect supply and demand conditions. It may be stated at this point, positively, that future price does not determine cash price.

This may be illustrated by the price of corn during the crop year 1917. The crop in the fall of 1917 was large in quantity, but very poor in quality, much of it being too wet to sell at all. The Food Administration was making superhuman efforts to move wheat to Europe, and, by the same token, was anxious to increase the consumption of wheat substitutes at home, including corn. Cash corn in January, 1917, ranged from \$.93 to \$1.03. From this date on, both cash and futures rose in price. By July, 1918, cash corn had climbed to \$2.32, a figure so high as to worry the Food Administration. The Food Administration considered the speculative buying entirely too large on the rising market, and the Board of Trade was called upon to prevent a charge being placed on the public by the unrestrained eventuation of these contracts. The Directors of the Board of Trade, exercising their own war powers over the activities of members, set a maximum price to corn futures, namely, \$1.28. This action was taken on July 11, 1918. This action held the futures down to the \$1.28 level. But did pegging the futures also peg the cash price? Not so. The cash price, buoyed up by heavy buying orders, continued far above the futures, reaching \$2.36 in August, \$2.24 in September, and, working downward as the new crop year approached, reached \$2.15½ in October, \$2.29 in November, and \$1.90 in December.

This illustration of cash corn moving wholly regardless of future prices may be supplemented by the examples of all future prices during the World War, when cash prices were continuously above futures, instead of below. In other words, upset conditions of transportation, markets, etc., placed a premium on cash grain.

The conclusion is evidently warranted that neither future nor cash price has a dominating influence, permanently, over the other. Both are merely effects of supply and demand causes.

TWO KINDS OF TRADING.

Notwithstanding the fact that there are several hundred million bushels of cash grain handled through the Board of Trade every year, public attention is centered almost wholly on the future trading which is going on there at the same time. At this point it is necessary to define each kind of trading, and show the relation of the one to the other. Cash grain means the grain actually on hand ready for delivery. Future trading is dealing in grain contracts, the grain covered by the contract to be delivered at some future date. The regular future delivery months for wheat are September, December, May, and July. Some speculate in cash grain; some in futures. The bulk of speculation is in futures.

INTERRELATIONSHIP OF CASH AND FUTURES.

The future market is used by two distinct classes of persons: by those who use it for speculation only; by those who use it to avoid speculation. This latter class includes the cash grain interests, to a very large extent, particularly those who wish to

introduce certainty and stability into their business. To illustrate this truth it is necessary to explain "hedging."

HEDGING.

Standing on the edge of the Chicago oats pit one day in the fall of 1917, I noticed Mr. E. W. Bailey step into the pit and sell two cars of oats for December delivery. He explained the transaction as a hedge. He had just bought two cars of cash oats, after looking over the samples displayed by the various receivers and shippers of cash grain. These two cars were ordered sent to his mill in Vermont. Fearing a loss by a drop in price before these oats should reach destination, and not wishing to assume the speculative risk of either a profit or loss through price fluctuation, he sold two cars of oats to a speculator in the pit who did want to assume a risk. Since this pit trade made Bailey's books balance—being "long" and "short" exactly the same amount, he had no further interest in price changes. For any loss on one side would be offset by a gain on the other side. Thus if the oats should rise in price 10 cents by the time the Vermont mill had passed them on to the consumer, Bailey would realize a 10-cent profit (in addition to his regular milling margin) on his cash oats. But as soon as his cash oats were sold, he would enter the pit and buy in his hedge, losing 10 cents on it. It may be emphasized here in passing that neither Bailey nor any other miller ordinarily takes any deliveries of grain on future contracts. They close out the contract before the delivery month by selling in the pit what they have bought in the pit, or

buying in the pit what they have sold in the pit. This universal practice helps shed some light on the large volume of futures as compared with cash sales. The big miller, quite obviously, meets his actual milling requirements—grades, varieties, blends, etc.—by buying cash grain from the samples on the trading floor. Hence he has no need of taking deliveries on futures, since they have served his purpose already by insuring him his milling profits.

This concrete case of Bailey is given in some detail because it is typical of a very large class of cash-and-future transactions on the Board of Trade. Bailey, without the hedge in the future market, could and would have hedged in another way (such as is done in barley), that is, paid less for the grain or sold it for more, or both. In other words, he would have worked on a larger margin. Wheat, oats, and corn, thanks to hedging in the future market, are now handled in the United States by the established dealers at the lowest margin of any farm product.

As the miller uses the hedge, so do also the country elevator managers, the terminal elevators, and the exporters. Thus the country elevator manager, filling his house with cash grain, already paid for, sells it for future delivery. In September he is likely selling for December delivery. As his cash grain reaches the terminal and is bought and paid for by terminal elevator, miller, exporter, or industry, he buys in his hedge. The cash buyer, whoever he may be, if he is a representative grain dealer, proceeds to hedge in a similar manner. Thus,



The Pit. Chicago Board of Trade.

the cash grain interests are constantly in and out of the pit, trading with the speculators there, in order to avoid speculation themselves. This has two direct benefits for the cash grain interests. They work on a narrower margin (pay the producers more or charge the consumer less); they are financed at lower rates by the banks. On this first head, wheat and barley, before future trading in barley was established, are a case in point. To give a concrete illustration from a South Dakota country elevator. Wheat subject to future trading, is handled on a definite and narrow margin; barley was handled on a margin just three times as large. If the barley could have been hedged, the farmer would have received more for his barley. And on the second head, it may be stated that the large banks, in financing cash grain, feel that the loan has greater certainty and stability when the grain is hedged in the pit. It is true that some large banks loan against bills of lading, looking to the railroad company for the value of the wheat in case the shipment is lost or destroyed in transit; or these banks may loan to terminal elevators against warehouse receipts protected by grain insurance. However, in either of these cases there still remains a speculative hazard due to change in price of the grain and the bank must charge for this hazard in its interest rate. This speculative risk, however, many banks prefer to see shifted to the shoulders of the speculator. The testimony of one of the most experienced bankers in the grain belt is valuable as throwing light on this whole subject of financing the grain trade:

David R. Forgan, President of the National City Bank of Chicago, stated the matter in these words: "Warehouse receipts for grain or anything else that finally becomes human food are, in my opinion, the best possible collateral for bank loans.

. . . The warehouse receipts, therefore, above alluded to, constitute a collateral which is always available for the payment of debts. Furthermore, if the grain or provisions represented by the warehouse receipts are already sold for future delivery, that fact adds a great element of strength to the loan because there is a third party obligated to take the grain at a certain time for a given price.

"When I lived in Minneapolis I had the only unpleasant experience I ever had in connection with the elevator business. A terminal elevator concern filled its elevators with wheat, and thinking that the market was likely to go up they did not hedge it by selling for future delivery. In other words, they speculated on their wheat. The market had a large and sudden drop with the result that the elevator concern failed, and the bank with which I was connected suffered a loss. The present method, therefore, of carriers of grain or provisions selling them for future delivery is a highly satisfactory one to the banks whose money is loaned to the carriers. The sale for future delivery is the final link in the chain that makes such loans the best in the world."

This description of hedging, up to this point, has illustrated one form of hedging only, namely, that form in which the pure speculator always took one side of the trade.

There is another form of hedging, also common, namely, that form in which actual consumptive buyers instead of speculators take the buying side of the trade. To give a concrete illustration: Some cash grain interests went into the pit (in July) and sold 200,000 bushels of December corn. The buyer turned out to be a Texas cattle feeder, and not a speculator. He held his contract till December, called for his corn, and got it. And, by the way, this example of a trade (which actually happened) illustrates another very simple aspect of the market, which at first glance looks "complicated" to the outsider. And that is this: The man who sold this 200,000 bushels of futures as a hedge, to Mr. Feeder, later bought in his hedge from Mr. Speculator, thus closing out his own futures. And Mr. Speculator, who was now short 200,000 bushels December corn was, under Board of Trade rules, bound by an unconditioned contract to deliver the corn in December. In such a case he would make one of two choices: (1) stand on the contract and deliver the corn; (2) or pass on the contract to some other trader who was ready to take the short side of the market. The fact remains that as long as Mr. Feeder is "long" 200,000 bushels December corn, some trader is short that amount, and the terms of the contract will be strictly fulfilled. And the further fact is to be borne in mind that these trades are contracts, not bets, and any trader who wishes to receive grain on his long contract will get it, properly stored and insured in a regular warehouse sometime during the delivery month.

Is this process "complicated"? No more so than that of many contracts for large construction jobs. Thus Engineer A contracts to pave a street for \$300,000. He is really selling labor and material short, for he contracts to deliver in the future what he does not now possess. It is a speculation on his part. He "sublets" the job to Contractor B, for \$275,000, thus obtaining a profit of \$25,000. Contractor B may pass on the contract to a group of smaller men—C, D, E, and F—at a total of \$270,000, thus having a profit of \$5,000 on his contract. In the end the contract is fulfilled by the respective parties concerned and the city gets its pavement, but not directly from Engineer A.

Or, to illustrate by an example from the clothing trade. The American Cloak Company wants 1,000 women's coats. Cohen sells the coats for \$50,000, that is, he sells short, for he does not have any coats, but will deliver them at a future date. Cohen now divides his contract into ten jobs, and sells to ten of his friends a contract to deliver 100 coats each, at \$45. In turn these ten pass on their contracts to a number of smaller contractors and so on finally till the actual coat makers are reached. Some contractors may lose on their contract; some may gain. At any risk many "short sales" may be made before the actual goods are delivered. Briefly, to sum up, the man who sells coats not in existence, who sells pavement not yet constructed, or grain he does not own, is a short seller, who, in dealing in contracts, thereby performs a service in our present commercial system.

Again, to return to the grain trade, there are several thousand farmers in Iowa and Illinois who now use the Board of Trade for future contracts, to avoid speculative risks. Thus, in the late summer of 1920, their corn crop being assured and the price for December being satisfactory, they gave orders to grain commission firms to sell the December future. When December arrived, the price of corn had dropped 75 cents a bushel, but they, of course, delivered the corn on their December sale and obtained their original December contract price. The commission charged on these future trades is one-fourth of a cent a bushel. A similar thing happened with certain wheat farmers who sold for December delivery, except their profit was nearly one dollar a bushel by avoiding the post-war price recession.

The foregoing discussion may be summarized by saying that the speculator is a middle link in the chain of cash grain transactions and hedging transactions. He is the link that enables the other two interests to avoid speculation. *He furnishes the insurance.*

LARGE VOLUME OF FUTURES.

Future trading is dealing in grain contracts, not real grain, just as banking is dealing in credit, not real money. But it must be repeated and reiterated that credit is a promise to pay money—a grain contract is a promise to pay grain. And so the New York banks at the close of the year 1917, held net demand deposits of \$3,500,000,000, and a total of all reserves of but \$550,000,000—or ratio of credit to real money of



A Busy Minute at the Cash Grain Tables.

over 6 to 1, showing an efficient system of commercial banking. So also the grain contracts on the Chicago Board of Trade in an ordinary year greatly exceed in volume the amount of grain in the country. The crop of wheat, corn and oats in the United States averages 5,000,000,000 bushels annually. The volume of future trading in these grains at Chicago averages 20,000,000,000 a year, or four times the total crop. As long as all future contracts in grain are promptly met at maturity their total volume need have no fixed proportion to the cash grain handled. It is, in fact, very much the same as comparing the total volume of checks cashed with the size of the gold reserve. This proportion, be it gold or be it wheat, is governed by the needs of the trade. How extremely rare is a case where a member of the Board of Trade fails to live up to his future contract. Practically non-existent!

SELLING CASH GRAIN.

The above discussion illustrates the fact that future trading, as now carried on in the organized exchanges, is a part of cash grain trading—that part which furnishes certainty and stability through insurance. At this point a brief word must be said about another aspect of the cash grain trade, namely, how the farmer's grain is sold.

About 95 per cent of the grain reaching the terminal market has already passed out of the original farmer's hands into the hands of a country elevator. About 4,000 of the country elevators in the Chicago territory are owned by farmers collectively, and the bulk of the cash grain reaching Chi-

cago comes from these farmers' elevators. Most of it is consigned to grain commission merchants to be sold by them to the highest bidder they can find. The "toll" is 1 per cent for this service. If the commission merchant is a skilled salesman (and the unskilled do not survive long on this market) he is at his table early in the morning—a half hour before trading begins. He sees his samples delivered from the State Grain Inspection Laboratory, each in a strong paper bag with the proper notations as to grade, moisture content, dockage, test weight per bushel. He sees his own samples arranged in order, whether he has ten cars or fifty or a hundred cars to sell. He moves about among the other fifty tables. He makes a swift and accurate mental inventory of every car of grain arrived, how much off-grade stuff, how much premium grade, and so on. Every seller of grain he knows intimately. They are his competitors. There are about 100 of them. The buyers of grain he knows equally well, and what their particular requirements are. And so when the gong sounds for trading to begin, he has his selling campaign well in mind—what to do with his white corn or his yellow corn, or his mixed corn, or his white or standard oats, or his hard wheat or his soft wheat. The actual bargaining is keen to an extreme degree. It is doubtful whether any better exhibitions of salesmanship are anywhere to be found than here, or any more fierce competition. In one sense it is an auction—the sales going to the highest bidder. Only there are many sellers and many buyers.

SCALPING.

Sometimes the claim is made by those not familiar with facts that these grain dealers buy and sell from one another, the same car of grain thus passing back and forth several times, "each one taking a commission on it." I once looked up the history of twelve hundred cars of cash grain sold on the Chicago Board of Trade, to see how many cars pass directly from the original shipper, through the one commission merchant, to the consumptive buyer. All these cars but two followed this short route. In other words, "scalping" of cash grain in this market is a very small fraction of 1 per cent.

PERSONNEL.

When it is remembered that here are assembled as buyers, representatives of the large milling interests (including the Minneapolis mills), of all the large exporters, buyers for the various grain industries, including the Quaker Oats Company, the Corn Products Company, and similar industries, the owners of big seed houses, and other grain interests, when all these are remembered, to repeat, it is apparent that the cash grain market is strongly represented on the buying side and that these buyers are competitors.

SPECULATION.

The most familiar form of speculation in America today is land speculation—that is, the buying of a piece of land or a town lot, expecting to sell it later at a profit. The expected profit is to come from a change in price. The real essence of speculation is

profit due to price fluctuations. Compare, for instance, a farmer, a retailer, and a professional speculator on the organized exchanges. Whence come the profits of each? The farmer aims to make his profit by using his land, labor and capital in producing crops for market. When once produced, he may hold his crop for a rise in price, thus adding a little speculative profit (or loss) to his farming. In brief, his profits come primarily from good farming, and only incidentally from speculation. The retail merchant likewise is not a speculator, for his profits come from buying at wholesale and selling at retail. He may forecast a rise in price of sugar (for example) and lay in a big stock, thus making a speculative profit (or loss) through price fluctuation. But his speculative profits are purely incidental. And now comes the speculator, whose profits come, primarily, from price fluctuations—buying cheap and selling dear; or what amounts to the same thing in the end, selling dear (for future delivery) and buying cheap (to fulfill his contract).

Speculation, then, may be defined as forecasting a change in value, and buying or selling to make a profit from such change.

SPECULATION IN CASH AND FUTURE TRADING.

Recently I was talking to a noted preacher, famed for his stern opposition to "speculation." He had just bought a \$5,000 farm, paying down on it \$500. Was he going to go "back to the land," I asked. He was not. He planned to sell to a prospective customer for \$6,000, thus taking a

profit of \$1,000. In trade language, by putting up a margin of \$500, he speculated and made a profit of \$1,000. This illustrates one outstanding truth, namely, that speculation is speculation, whether in futures or cash commodities. A Kansas farmer by the name of Norman a few years ago considered cash corn too low at 18 cents a bushel delivered at the station. So he bought and stored 25,000 bushels. His forecast was correct. He sold the corn at 68 cents. He could just as easily (and more cheaply), have put up a margin, sent his buying order to a member of the Chicago Board of Trade, and bought the 25,000 bushels for future delivery. The essence of both trades is the same—profit through price change.

THREE KINDS OF SPECULATORS.

On the Board of Trade there are three distinct kinds of speculators, known in trade language as amateur speculators, professional speculators, and pit scalpers. The pit scalper is an important factor. There are about forty of these pit scalpers. A scalper is a trader who buys and sells on very small fluctuations in the price, usually with each one-eighth of a cent change, for in the pit price changes are on the one-eighth of a cent basis. The pit scalper is thus said to be in and out of the market, through the day, but is even at night. That is, he has sold as much as he has bought. He does not go long or short over night. His importance is in keeping a continuous market when the other class of traders are having a dull spell.

The professional speculators are men of

more means, and who buy and sell for longer swings in the market. There are probably not a dozen men on the Board of Trade who make their sole income as professional speculators, although there are perhaps a hundred men there who can qualify as professional speculators. They are members chiefly of large Chicago firms, or firms in other cities. Some of them may trade a little every day. Some may take a trade only occasionally. Most of them have other interests so that they can safely speculate and lose without being wiped out. The professionals and scalpers together do about four-fifths of the total speculation.

Almost without exception, every grain commission house in Chicago does two kinds of business for its customers: cash grain (at 1 per cent commission) and future trading (at one-fourth of a cent a bushel). And future trading is, of course, either hedging or speculation. The amateur speculators comprise those lawyers, doctors, farmers, merchants, and other classes, scattered all over the United States who send in their orders for speculative trades to the commission houses. One big commission house will have about 3,000 of such customers. They all have their respective market opinions. And they are willing to invest their money on the strength of this opinion. Hence their order goes in; the trade is executed on the floor—and then stands as an open contract.

FUTURES FURTHER EXPLAINED.

Strictly speaking, *future trading is not dealing in grain, but in contracts to deliver grain.* Hence the volume of futures natu-

rally and properly greatly exceeds the volume of cash grain. Grain contracts (future trades) are used very much the same as credits in our present commercial structure, and are a sign of health and growth, not of corruption and decay. Credit is defined as a promise to pay money. But how greatly the volume of credit exceeds the volume of money! One form of credit alone—and a perfectly sound one—is our Liberty Bond issue, amounting to some twenty-five billions of dollars. This is a promise to pay in gold, and is, in fact, over eight times as large in volume as all the gold in the country. Or, the commercial banks give their customers the most liquid form of credit in business, namely, bank deposits subject to check, to the amount of over six times the total volume of money in the country. Grain contracts are liquid contracts in the grain trade and function as liquid credit does in the smoothly functioning business world. Whether grain futures are ten times or twenty times the volume of the grain delivered is not so important as the question whether or not these contracts are kept absolutely above question as to their integrity and safety. And the protection thrown around these contracts by Board of Trade rules has made the various cash grain interests use these contracts as unhesitatingly as they would use gold coin.

Credit is a promise to pay money.

A grain contract (future trade) is a promise to pay grain. Most credit transactions (at least 95 per cent of them) are settled without the use of money. This is sound banking. Most grain contracts are



Cash Tables Ready for the Day's Trading.

settled without the use of grain. This is sound and healthy business. It makes the business easier to transact, hence cheaper to transact.

WIDE OR NARROW MARKET.

A wide market is a market consisting of many buyers and sellers. It is subject to many and small fluctuations. A narrow market is a market consisting of few buyers and sellers. It is subject to few but violent fluctuations. To illustrate:

(1) Wool market. The wool market in the United States is a very narrow market, there being no organized wool exchange for future trading and a comparatively small number of big manufacturers and big speculators as buyers. The number of speculators and dealers who stand between producers and manufacturers is, it will be noted, small, not large, as in the wheat market. And the large speculators themselves own the bulk of the storage. Hence, when a few big manufacturers withdraw from the market as buyers, as occurred in the summer of 1920, the price sags enormously. There are not enough speculators to come in and take up the slack. Hence wool prices (when sales could be made at any price at all) went as follows: Fine medium Montana clothing wools (clean basis, Boston market) fell from \$1.82 per pound in January to 75 cents in November. On poorer grades of wool the drop was to 15 cents at country points. Had there been an organized wool exchange, with futures and organized speculation (including many small speculators without storage), the market would have been a wide one, free from stop-

pages and violent fluctuations. Any fall in price would have been cushioned by the speculative traders.

(2) Beans. A perfect example of a narrow market, run for the "consumptive buyer" and without the "speculator," is furnished by the California bean crop in 1918. The State Market Director of California, in his annual report for the year, tells the story in his own words as follows:

"The conditions facing the growers were in the nature of an unprecedented combination of unfavorable circumstances.

"The small limit which the Federal Food Administration had placed on the profits to be allowed to the speculative buyer, had completely destroyed his speculative interest in the product. As a consequence, he was unwilling to buy except from hand to mouth. This left the producer with no buyers except for the merest handful of the product. Furthermore, the banks, with abnormal demands made on them by the government, with large advances made by them to barley and to other growers, with a weak and declining bean market staring them in the face, were in no frame of mind to look with favor upon requests for financial accommodations coming from bean growers."

This is a clear indication of the producer's interest in a wide market, consisting of both speculators and consumptive buyers.

(3) A third example of the meaning of a narrow market may be taken from the wheat pit itself, immediately following the period of government control. When the Chicago wheat pit reopened in 1920 but few

traders took part in the transactions there. It was indeed a dull market, with few traders and few transactions. This meant what all narrow markets mean—wide swings in price, violent fluctuations. To make the matter more specific, take the reopening of the Winnipeg wheat pit on July 21, 1919.

The news dispatch states:

“Winnipeg.—After suspension for two years, wheat trading was resumed on the Grain Exchange here July 21. The first bid was \$2.10 for October, with no offers (i.e., no sellers), and the first sale was made at \$2.20, the price rising to \$2.25 asked with no buyers. But 5,000 bushels were dealt in the first hour. The first bid for December wheat was \$2.23, with no sales. Dealers are inclined to be cautious. The millers are not in the market, but are watching the situation closely.”

Here is a market without speculators—and what a narrow market it is, how unsuited for hedging cash grain in. It is the universal and unanimous opinion among all handlers of cash grain with whom I have conferred on the subject, that the speculator is needed to make a wide market. The wide market is needed to keep down the costs of handling cash grain. And lowering the handling costs is desired by the public.

WHY DO PRICES FLUCTUATE?

We see all around us price changes. The city consumer, during the World War, blamed the “profiteer” and speculator for the tremendous rise in the price of farm products. Since the war, with a general recession in food prices and other prices,

those suffering from the fall in prices quite generally blame the market machinery for this decline. And since the organized exchanges are such concrete and highly centralized pieces of market machinery, criticism has quite naturally focussed on them. Why prices fluctuate, and the true relation of organized speculation can best be answered in the form of brief questions and categorical answers.

Q. Have we any article, bought and sold on the market, and not subject to speculative trading?

A. Yes. United States Government bonds. The interest rate and the face value of the bond are both stamped on the bond in plain figures, and both will be paid in full in gold.

Q. Are these bond prices then entirely free from fluctuation?

A. No; on the contrary, they show wide fluctuations in price. Just before the World War, the 4 per cent bonds were selling at 116. In April, 1920, 4¼ per cent bonds were selling at 84. This is a difference of \$32 on a \$100 bond.

Q. Were these price fluctuations due to speculation?

A. No. The chief buyers were savings banks and insurance companies.

Q. Did the bond prices fluctuate greatly during the year 1920?

A. Yes.

Q. Did the supply of bonds increase during this year?

A. No. There were no new issues. The supply of bonds was therefore constant.

Q. What did make the prices fluctuate then?

A. The demand. Buyers preferred other securities, and would buy these bonds only at price reductions.

This short catechism is given to teach one truth, namely, that severe price fluctuations occur in one non-speculative article, due wholly to supply and demand influences. And just as Government bonds fluctuate in price, according to the fundamental economic law of supply and demand, so also do wheat and other commodities.

"STABILIZED" WHEAT PRICE.

Fortunately, we can test this rule of wheat price fluctuations by taking the 34 months of Government control of wheat price with future trading abolished, and comparing them with the 34 months of normal times prior to the war with future trading in force. The government stabilized price for No. 2 Northern wheat did not succeed in holding this wheat down, but on the contrary, the demand put the price up to \$2.32 in July, 1918, and to \$3.50 in December, 1919. Taking the whole range of price for the 68 months, (1) October, 1911-August, 1914, and (2) September, 1917 (when the stabilized price began) to June, 1920, inclusive (when the Government control ended), and considering No. 2 Northern cash wheat, the actual figures on the Chicago Board of Trade show the following:

In the first period (with only future trading to stabilize prices), price ranges were as follows: October, 1911, from 108 to 117, or 9 cents; November, 5-cent range;

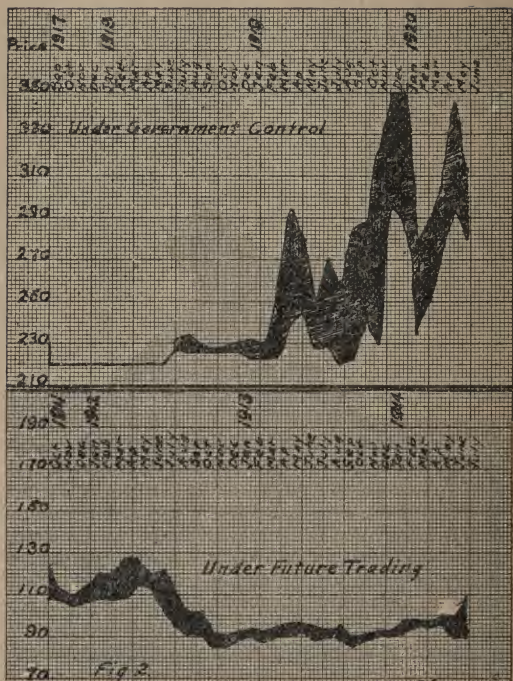


Chart 4.

Price Stabilization: (1) Under Government Control. (2) Under Future Trading. Cash Price of No. 2 Northern Wheat, Chicago Board of Trade, for 68 months. From August 25, 1917, to July 1, 1920, price was controlled by the government and no Future Trading was allowed.

Note the greater stability under Future Trading.

December, 5-cent range. Thus the total range for these three months was 9 plus 5 plus 5 cents, or 19 cents. The total range for the whole 34 months prior to the war was $211\frac{3}{8}$ cents, or an average of 6.2 cents a month.

Now, applying the same test to the 34 months period when the price was stabilized by the Government, we find the following: September, 1917, from 2.20 to 2.30, or 10 cents. Thus in the same manner, the total range for the 34 months of Government control was 786 cents, or an average of 23.1 per month.

To summarize, when stabilized by future trading the monthly range was 6.2 cents.

When stabilized by the Government (all speculation in wheat futures abolished) the monthly range was 23.1 cents. (See Chart 4.)

SPECULATION LESSENS FLUCTUATIONS.

The evidence in the foregoing graph illustrates the economic truth that organized speculation—on a wide market—lessens fluctuations. This is further illustrated by studying what actually happens on the Chicago Board of Trade (not what some careless public speaker falsely says happens there). Until, recently the three grains—wheat, oats, barley—were sold as cash grains on the same tables and in the same manner, but there was no barley pit. In the period before future trading in barley was begun, wheat and oats were subject to future trading or to wide speculation in their respective pits, while barley was not. Which prices, therefore, show the wider fluctuations? Taking 15 normal years as a

fair test, free from wars or panics, 1900-1914, we find the following fluctuations in cash prices:

Not once in this period did wheat show a fluctuation of 100 per cent in any one year.

Only twice in this period (1901, 1902) did oats show a fluctuation of over 100 per cent.

Seven times in this period barley did show a fluctuation of over 100 per cent.

It is facts such as the above that cause an increasing number of informed farmers to use the Board of Trade to stabilize the price of their wheat.

"Why are wheat prices always forced down in the fall?" This is one of the three questions asked by the president of a farm bureau. The implication is, of course, that somebody defies the law of supply and demand and "forces" prices down. The answer is, in the first place, that prices are not forced either up or down by the Board of Trade; and in the second place, prices are not always "down" in the fall. If that were true, the market would be a "sure thing" for the short seller who wanted to speculate in July by selling for September or December delivery. Examine the Chicago market for fifty years and see what actually happens—not what our silver-tongued orators tell us; the facts, not the fancies.

In the fifty years, 1866-1915, the annual lowest point of cash wheat prices, was reached four times in September, five times in December. The annual highest point of cash wheat prices was reached five times in September and six times in December. This

is conclusive proof that the price of wheat is not "always forced down in the fall."

"Why is a bushel of wheat not worth as much one day as another?" This is the second question asked by the president of a farm bureau. The answer is, for the same reason that a government bond is not worth as much one day as another, because the supply or the demand or both fluctuates from day to day, from hour to hour.

CORNERS.

Does the Board of Trade increase or decrease the number of corners? Yes and no. As originally organized and conducted, with its wide open policy, the board afforded machinery for promoting corners. Only one grade of wheat was deliverable on contract and this made cornering the supply easy for a rich man. And so early in the Board's history a sort of code of honor grew up, winking at corners, and even permitting the bucketing of trades, the crossing of trades, the matching of trades and nipping trades. Not till 1865 did the Board take any steps whatever to regulate future trading, and not till nearly twenty years later did cornering the market threaten to destroy the Board. By that time the volume of cash grain had grown so large that the cash grain interests turned in self protection against the prostitution of the market machinery by the manipulators. From that time on rules have been added, from year to year, curtailing the power of the manipulator and outlawing the whole practice of corners. For instance, the Board has made and will enforce the following rules: (1) Shipping grain out of store and selling it

at less than Chicago prices to produce a shortage in Chicago, is now deemed "un-commercial and dishonorable conduct." Penalty, expulsion. (2) The short seller, in case of a market squeeze, may under certain conditions settle at a "fair price," not at the "fictitious price." (3) Instead of one grade of wheat, 21 grades are now deliverable on future contracts. (4) Delivery on track may be made within the Chicago switching district during the last 3 days of the month in case the stored grain is held for too high a price. (5) To meet the situation arising from the ownership of terminal storage by a few large interests (and the possible abuse of this concentration), a rule provides that the Directors of the Board may in an emergency declare any storehouse in Chicago, with proper trackage, or any vessel in the harbor, to be regular places for the storage of grain deliverable under Board of Trade rules. This adds to the 11,000,000 bushels of "regular" storage some 40,000,000 bushels more.

Added to the above rules of the Board is the decision of the United States Supreme Court declaring it a crime to corner the market. Hence the Directors of the Board of Trade very clearly have within their hands power to deal with the evil of corners. Hence there has been no artificial corner of the wheat market since the days of "Old Hutch" in 1888. The so-called Leiter corner in 1898 was a failure and cost Leiter himself many millions. Leiter did not corner the market. The so-called Patten "corner" of May wheat in 1909 was in no sense a corner. It was a natural condi-

tion. The top price of cash wheat in May was \$1.54. But with Mr. Patten out of the market during June, the actual market shortage caused June prices to go higher, ranging as high as \$1.60. High prices held till the new crop came in in July.

So it is to be concluded that in the early days the Chicago Board of Trade did make easier the running of corners, but in the past ten or twenty years it has tended to prevent corners and has prevented corners. The Board of Directors not only have the power to prevent corners, but it is also to their interests to do so.

MANIPULATION.

Manipulation is usually defined as forcing prices up or down by artificial means, by deception or fraud. Influencing the grain market by spreading false crop reports (common practice fifty years ago), or by spreading false rumors of crop damage are examples of manipulation both of which are positively forbidden and punished by Board of Trade rules. Like "cornering the market," these forms of "manipulating the market" are not present practices on the Board of Trade.

Once a prominent market manipulator said about the Chicago Board of Trade: "It is easy to corner the market, but it is hard to bury the corpse." That philosophy about "burying the corpse" still applies to "market raids" by bulls or bears.

"RAIDS."

It frequently happens that prices begin to trend upward for a few days or downward for a few days, and the usual newspaper reports state that a "bull raid" or

"bear raid" is in progress. The implication is that some powerful trader or some combination of traders with millions of dollars are raiding the market. This is simply careless phraseology. It means that conditions are so obviously bullish or bearish that the majority are naturally buying or selling at the same time.

SHORT SELLING.

But does short selling depress prices? No. For the amount bought equals the amount sold. For just as truly as some big bear "throws a million bushels" on the market, some bull buys this same million bushels. Or, what is more significant, the big speculator who today is a bear and sells one million bushels (thinking the price is too high) will later buy back this million to close his contract. Surely his buying a million will lift the price as much as his selling a million has depressed the price.

PUTTING ON BRAKE.

The fact is that the effect of speculation on price (including short selling) is merely to put on the brake against every bulge or break in price. Obviously, if the price bulges a few cents, the bear (short seller) foreseeing a loss impending, begins to cover (to buy back what he sold). At the same moment the bulge makes it to the interest of the bull (buyer) to sell out and take his profits. It is in this manner that the two conflicting interests, in protecting themselves, tend to take the opposite sides of the market with any definite price changes, thus tending to check any very wide and sudden fluctuations.

MONOPOLY.

As now conducted the grain trade is our most competitive institution, as pointed out in chapter two, and is conducted furthermore on the lowest margins of cost of any farm product. Doubtless it would be a good thing to eliminate all gambling from the grain trade, just as it would be a good thing to put a stop to all gambling at card parties, church fairs, ball games and elsewhere in society. But who has a ready-made program, legislative or otherwise, that will accomplish this result? Education, religious and otherwise, is slowly reducing the evil of gambling in society. Hence this is not a problem of the grain exchanges particularly. Is speculation gambling? *Speculation on the organized exchange is not gambling any more than speculation in cash grain, in town lots, or in farm land is gambling.* If it were possible to eliminate the thousands of small speculators—the lawyer from Kokomo, Indiana; the doctor from Ames, Iowa; the farmer from Tarkio, Missouri; the priest from Topeka, Kansas; the preacher from Zanesville, Ohio—if it were possible, I say to eliminate these thousands of “small speculators” from the Chicago Board of Trade, there would of course be left fewer speculators there. But they would be the strong ones, the giants of the pit. The trade would be dominated by a few powerful houses and their clients. This would represent a dangerous concentration and control of the grain trade in the hands of a few competing houses. A combine—a monopoly—would not be difficult to secure in such a case. But as now organized

the greatest protection the public has against monopoly is the large number of widely scattered speculators, trading through over a hundred different houses on the Board of Trade. If, for instance, Mr. A. with his 3,000 customers was able to form a combine with Mr. B with his 3,000 customers, this would still leave the bulk of the speculative traders not only outside the combine but scattered so widely over the whole United States that no collusion would be possible among a majority of them. It is for this reason that any big house does not and cannot control prices on the Board of Trade. In other words, *organized speculation is the public's protection against monopoly. Abolish speculation in futures, and speculation is then concentrated on cash grain and must be, by the same token, carried on only by fewer and more powerful persons.* This sort of speculation is illustrated on such big cash markets as Buenos Aires, Odessa or Konigsberg, where price fluctuations are frequent and violent, where wide margins are taken, and where the market is dominated by powerful cash grain interests.

INCREASING USE OF FUTURES.

The use of future trading has spread into many lines of business, the purpose being to introduce an added element of business stability. The "forward contract," as it is called in the steel industry, or running on orders, is the usual form of running the more expensive steel plants in order to keep hedged against price fluctuations. The furniture factories of Grand Rapids and elsewhere work on future contracts, actually

"selling short" as far as the finished product is concerned. Most of the big bakeries have long time future contracts in flour with the millers, just as the millers have their future contracts in grain with the pit traders. Apples are sold by the growers or dealers, in the orchard areas of the Northwest, for future delivery. Oddly enough, the heaviest future trader in apples, on the buying side, is the farmer—the organized farmer of the Canadian West. In the spring of 1919, for instance, the farmers belonging to the United Grain Growers (Winnipeg) placed one order for \$300,000 worth of apples for fall delivery. California walnuts are sold for future delivery by the growers, the forward contract usually being made in January for the fall deliveries. California prunes and apricots are handled by the organized growers in a somewhat similar manner, the contracts being made early in the summer. In the line of pure food products, great manufacturers like H. J. Heinz of Pittsburgh contract ahead with growers in order to be sure of their sources of supply. The importation of oriental beans, so important during and since the World War, is conducted through dealers who depend largely on future contracts. Butter and egg exchanges have finally developed future trading much like the grain exchanges. Future trading in eggs began on the Chicago Mercantile Exchange in 1919 and on the New York Mercantile Exchange in 1920. It is noteworthy that in those foreign countries where future trading in grain is conducted very much as in America, the use of future contracts is

spreading to other things. The latest of these movements of worldwide importance is the founding at Antwerp, March 1, 1920, of a market for dealing in futures in foreign exchange. The need of insuring the Belgian purchaser of foreign goods against future losses due to excessive fluctuations in foreign exchange led to this step. This is but a fresh illustration of the economic functions of our own organized exchanges, namely, to stabilize prices and protect regular dealers against losses due to price fluctuations. Yet we still have some careless public speakers who tell us that future trading is the cause of price fluctuations!

COST OF FUTURE TRADING.

Future trading in grain in the United States is centered in Chicago, the volume of trading there being much larger than all the combined futures on all the other exchanges. The future contracts in wheat, oats and corn in Chicago amount to twenty billion bushels a year—that is, four times the crop. What is the “toll” on this volume of business? That is easy to calculate when once it is known what the commission charge is and what amount of trading is done by members for themselves on which, of course, no commission is collected. The commission on future trading, for non-members, is one-fourth cent a bushel. This means \$12.50 to buy 5,000 bushels or to sell 5,000 bushels, or for the round turn—both buying and selling. For a member trading through another member the fee is one-half the regular commission. Investigations have shown that of all the future trading, 53 per cent is by members for themselves, 27

per cent is by members for other members, and 20 per cent is by nonmembers. This brings the total commissions up to approximately \$20,000,000, or a charge against the crop of two-fifths cent a bushel. Considering the hedging feature of future trading, this is remarkably cheap insurance. Were future trading abolished, hedging would of course be secured by paying the producer less, charging the consumer more, or both. Judging by the experience of large cash markets that have no future trading, this form of hedging would likely cost 10 cents a bushel. But since this is such a vital point, some concrete evidence must be submitted.

The Saskatchewan farmers' co-operative elevators, in the spring of 1917, when future trading was temporarily suspended on the Winnipeg Grain Exchange, were confronted with the two alternatives: (1) of buying wheat on a wider margin (as a hedge or insurance); (2) of stopping buying altogether. In their own official report of this emergency, when no future trading was available, they say:

"Our company deemed it advisable to stop buying until matters were adjusted. We do not speculate and consequently refuse to have anything to do with any form of speculation. To buy wheat at our elevators during a time when we had no means of making hedging sales would have meant speculating with whatever we purchased, so we stopped buying. After a few days of inactivity an arrangement was arrived at between the Royal Wheat Commission . . . whereby the May and July deliv-

ery contracts would be liquidated and business for the balance of the season taken care of. . . . Buying was at once resumed in the country." (Quoted from the Saskatchewan Co-operative Elevator News, June, 1917.)

This quotation furnishes proof of the fact that where the organized farmers themselves use the future market on the grain exchange they find that it cheapens the cost of handling the grain instead of adding a "toll."

TOLLS AND PROFITS IN GRAIN TRADE.

The third question asked by the president of a farm bureau (mentioned before) was, "Why is there three times as much profit made on a bushel of wheat after it leaves the farmer's hands as the farmer made?"

This question implies that the farmer who grows wheat, year after year, has very little profits to show for it. The best answer to this question is to take our greatest wheat State, Kansas, and see what has happened to land values where the farmers have stuck to wheat growing. Sumner County is the world's famous wheat county. In the year 1880 the farmers there put in 59,000 acres of wheat; this land then had a value of \$9.42 an acre. When the 1910 census was taken, 30 years later, these farmers had in 170,000 acres of wheat and their land had risen in value to \$44.88 an acre. The fact that the wheat acreage increased and the land values rose some 300 per cent during this period indicates that the farmers had very liberal profits on their wheat.

Or, to take a specific case. The well-

known William Goepfert farm is in the Kaw Valley, one mile east of the village of Perry, Jefferson County, Kansas. Forty-seven years ago Mr. Goepfert got this valley land, the value then being \$37 an acre. For forty-one years out of the past forty-seven he has had the land continuously in wheat; the value of the land now is \$300 an acre. Evidently the wheat farmer must be making some money.

SUMMARY ON SPECULATION.

Speculation, in its widest meaning, includes the assumption of economic risks for the sake of profit, and is therefore a social question rather than a question of the grain trade. In this wide sense of the term, all those persons who build new railroads, open up new mines of copper, lead, iron, silver or gold, build great steamships, construct factories or enter new fields of industry and commerce are speculators, in the best sense of that much abused word. Thus the revered Pilgrim Fathers came here 300 years ago, being sent over by a business corporation, the original charter of which was granted by the king to a company of speculators, or "adventurers," as they were termed in the charter. As the word is used today, it has lost much of its meaning of "adventurer" and risk taker and has come to be loosely used in a general condemnatory manner. Briefly, what is the evil and what is the good in that form of speculation which is used on the organized exchanges? For unorganized speculation is not being considered in this booklet.

EVILS OF SPECULATION.

There is good speculation and bad speculation. The evils of speculation are the evils associated with bad speculation. Bad speculation is speculation by the unfit. The unfit are of three classes:

(1) The ignorant—those who do not know enough about market conditions to have an intelligent opinion.

(2) Those who cannot afford to lose. Board of Trade rules tend to make it more and more difficult for this class to speculate on the futures markets.

(3) The third group comprises all those persons in a position of trust. Fortunately, many members now utterly refuse to handle any such business. The evils of these forms of speculation—and these are all abuses rather than proper uses of speculation—fall hardest on the membership themselves of the organized exchanges. Theirs are the losses through bad debts, theirs the odium.

BENEFITS OF SPECULATION.

What is said here about the “benefits” of speculation does not include land speculation or any of the many forms of unorganized speculation. Reference is made solely to speculation on the organized exchanges, that is, speculation, harnessed, directed and put to work in moving the grain crops from producer to consumer at a low margin of cost. Bearing in mind then that this kind of speculation is one economic form of assumption of risk (insurance), and that furthermore this kind of speculation merely registers future prices but does not fix future prices (as the weather vane registers

wind currents but does not cause wind currents). Bearing this thing in mind, we may enumerate four distinct benefits of organized speculation:

(1) Wide, Continuous Market.—Observation and experience teach that the speculator is often the only buyer between producer and manufacturer. The numerous small speculators make the grain market (when left free to act) a wide, continuous market, where any business day of any year producers may sell their crop at a price which is made openly and publicly by the meeting of many buyers and many sellers. The preceding pages show how this sort of a market was lacking to bean growers and wool growers, to cite but two of many possible examples. While the great World War closed all the world's stock exchanges for a period of many months, the Chicago Board of Trade did not close for a single hour. From the day it started—before the Civil War, up to the present moment, this great grain exchange has never closed its doors on a single business day. Here indeed do we find a wide continuous market.

(2) Stabilizes Prices.—Future trading, when made up of a large number of both hedging and speculative transactions, is a great stabilizer of prices. This has been illustrated in the preceding pages by comparing two grains—wheat and oats—that enjoy future trading, with one grain—barley—that did not enjoy future trading. Evidence was also given of wheat prices stabilized by future trading and stabilized by Government, and showing which meth-

od really stablized. In the next chapter some additional evidence will also be given on this point from the earlier history of this country. All men who have studied the subject carefully for years now are agreed that future trading stabilizes prices.

(3) Enemy of Monopoly.—Speculation on the organized exchanges is our best insurance against monopoly in the grain trade. Some of the largest grain dealers in Chicago—those with large terminal elevator facilities—admit, in private conversation, that their interests would best be served by abolishing the whole Board of Trade. Then the trade would fall into the hands of four or possibly five large firms and much wider margins could be taken. It is a significant thing that must never be forgotten that the comparatively late organization of the Omaha Grain Exchange (1904) was due to the fact that a few large dealers on that market had a combine and largely dictated local grain prices in the 13 respective districts into which they had divided the Nebraska territory; and, rightly fearing the destruction of this monopoly by an organized exchange, they resisted, and long successfully resisted the organization of the Omaha exchange. It is not necessary to read Tom Worrall's book on "The Grain Trust Exposed"; ask any farmers' elevator manager or officer in Nebraska who has been in business for twenty years, for confirmation of these statements about the Omaha market and its one-time monopoly.

(4) Stability of Values.—The favorite banking paper in the Northwest is "grain paper," provided it represents grain in

warehouses and hedged in the pit. It is this future trading (hedging and speculation together) which gives stability to values and safety to all investments connected with grain.

SHORTHILL'S TESTIMONY.

J. W. Shorthill, secretary of the Nebraska Farmers' Co-operative Grain and Live-stock Association—the best known man in the farmers' elevator movement—gave his opinion on speculation and future trading before the 18th annual convention of the Association at Omaha, November 17, 1920, in part as follows:

"Should Congress regulate, or curb, or even prohibit "future trading" in grain it would not increase the price of your wheat one penny. You would get less without it than you do with it. And you are thinking right now that this is a sensational thing for me to say to you and that I am not on your side of the question at all. You can find plenty of people who will tell you that this talk is not on your side of the question, but regardless of all that, I must tell you what I know. During the war, for the greater part of the time, we had no real future markets. Take corn, for instance. There was a future market on corn but it was a curbed market; the dealings were limited and regulated; the cash market was free; that destroyed the relation between the two. The result was that right here in the Omaha market corn was handled on a margin of from 10 to 12 cents a bushel as against a margin of from 1 to 2 cents in normal times and under a hedging market that was free. That's what the regulation

of the future corn market cost you—from 8 to 10 cents a bushel.

“But it may be urged, in fact it has been urged, that short selling of grain futures will depress the farmers’ market more than the margin I have mentioned will amount to—that short selling depresses the market at the will of the sellers. It has been said that large quantities of wheat were sold early in the season for export at a high price and later bought in at a lower price, and that is true. It is also true that the farmer did not get to sell his grain on the same basis on which it was sold for export. He was forced to sell it on a lower basis. But one thing is certain, and you will agree that it is reasonable, and that is that the farmer who has sold his wheat got more for it than he would have received had no one sold short on wheat for export early in the season. Every man who sells short forces himself into the position when he sells that will compel him at some time to be a buyer and it very often happens that those sold short in a market become the only sustaining influence the market has. That is exactly what has happened in the wheat market on this crop and without it the declines would have been more vicious than they have been; the market came down slower than it otherwise would have come down. That is exactly what did happen in the corn market I have mentioned because limits were placed on short sales. And because Japan has the only securities market in the world that does not permit short selling she had to close that market during the war, and after having been closed for a

time and again opened for a time, it was again closed and so remains."

CHAPTER 5.

SOME GRAIN TRADE HISTORY.

WHATEVER may be said about the theory of future trading and its influence in lessening price fluctuations, facts are called for to prove this contention. What concrete evidence can be added to that already given in the preceding pages? The Chicago Board of Trade was organized in 1848, but future trading did not fully develop till after the Civil War. We may therefore compare price fluctuations in wheat over a long period of years, before future trading was established, with wheat price fluctuations over a long period of years after future trading was established. In the second place, turning to the period when we had no future trading, we may take a typical year, free from panics or wars, and compare price fluctuations from day to day with present price fluctuations under present future trading conditions. And what will such evidence show? Let us examine each case separately.

(1) One Hundred Years of Wheat Prices.—By turning to the tables kept at the office of the Van Renssalaer Manor at Albany, we may find the price of wheat on the first day of January for each year for sixty years, that is, from 1793 to 1852. Then turning to the Chicago Board of Trade reports, we may find the price of wheat on the first business day of the year for forty years—that is, from 1874 to 1913. Both periods are therefore comparatively free from wars. Both periods saw major

financial panics. And here is what the figures show:

Price ranges for 100 years—sixty years without future trading, forty years with future trading.

Without Future Trading—	Low.	High.	Range.
First 20 years, 1793-1812..	\$0.75	\$2.00	\$1.25
Second 20 years, 1813-1832.	.75	2.25	1.50
Third 20 years, 1833-1852.	.93¾	2.25	1.31¼
Average for 20-year period, \$1.35.			

With Future Trading—	Low.	High.	Range.
First 20 years, 1874-1893..	\$0.72½	\$1.32¾	\$0.60½
Second 20 years, 1894-1913	.53½	1.21½	.68¾
Average for 20-year period, \$0.65.			

Or, put in other words, the fluctuations were more than twice as large in the days when there was no future trading.

The complete statistics put in the form of a graph are as follows (Chart 5):

(2) Typical Year Without Future Trading.—The year 1855 may be taken as a year free from panics, and a typical year on the Chicago market when there was no future trading. It represents the typical narrow market with few speculators and big fluctuations. Taking the "top price" of spring wheat on this market for the months from March to November, inclusive, we find fluctuations as follows:

CHICAGO WHEAT MARKET IN 1855.

(No future trading.)

	Low.	High.	Range.
March	\$1.20	\$1.35	\$0.15
April	1.40	1.60	.20
May	1.50	1.75	.25
June	1.55	1.73	.18
July	1.00	1.55	.55
August	1.00	1.35	.35
September	1.05	1.30	.25
October	1.28	1.50	.22
November	1.45	1.53	.08

Total range for nine months\$2.23
Average range per month24.8 cents

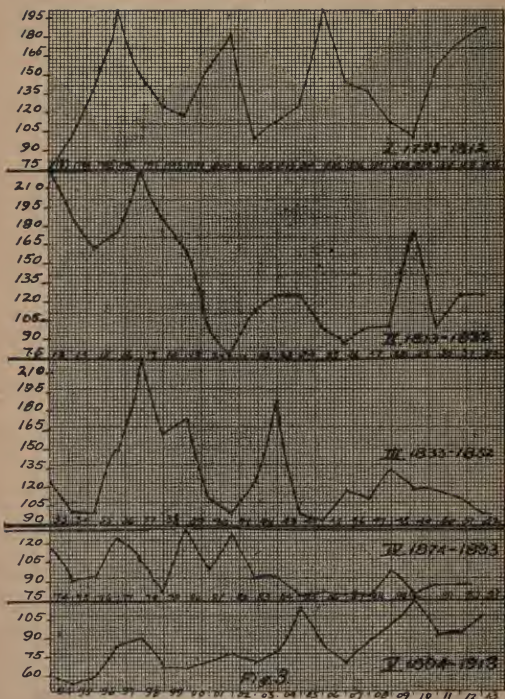


Chart 5.

One Hundred Years of Wheat Prices, arranged in 20-year periods. Compare price fluctuations. I., II., III. 60 years with no organized exchanges. IV. and V. 40 years with organized exchanges.

AVERAGE MONTHLY RANGE, 1855.

In other words, the average monthly range was 24.8 cents, which may be compared with the average monthly range for a period of 34 months preceding our entrance into the World War of 6.2 cents.

The statistics for the nine months' period expressed in the form of a graph are as follows (Chart 6) on next page:

"The development of the system of grading and of elevator receipts is the most important step in the history of the grain trade," says H. C. Emery, the world's greatest authority on this subject. The Chicago Board of Trade, in pursuing a policy of enlightened self-interest, contributed more than any other one factor to the growth of a standard weighing, inspection and grading system for grain. Even modern countries in Europe, such as Germany, handling vast quantities of cash grain, have not worked out a grading system that approaches in efficiency our system. Indeed, sack handling and selling by sample is still common in many large European cities, in place of the better and cheaper method of bulk handling and selling on grades. In the course of time the State of Illinois, in common with other States, took over the function of grading grain. Finally, the federal government itself established uniform grades, for the sake of the better handling of interstate and foreign shipments. But the State of Illinois left intact the weighing department of the Chicago Board of Trade, the official weights of which are now accepted as standard by all railroads and by all grain dealers. The State of Illinois, in taking over the



Chart 6.

Wheat Prices, Chicago Board of Trade. Year 1855 (before Future Trading was in use.)

grading of the grain, did in fact substantially preserve the Board of Trade grades. With very little change they are now reflected in the federal grades. This chapter in the Board of Trade history is one of great importance to the welfare of our grain growers and grain dealers but it is not one which receives much notice from public speakers.

GERMANY'S EXPERIENCE WITH FUTURE TRADING.

What would happen if our government should pass a law prohibiting "speculation" on the grain exchanges? The same thing, no doubt, which happened in Germany when the Reichstag passed a law in 1896 abolishing future trading in grain. The farmers were strongly organized and had enough political power to put the law on the statute books. It was administered with great efficiency. The farmers' party was, however, finally convinced of their mistake in passing the law. It had the following results:

(1) It increased price fluctuations instead of lessening them.

(2) One class of business men—commission men—were wholly driven off the Berlin market. The so-called small dealer was in nearly every case also driven off the market, leaving the business in the hands of fewer and richer men.

(3) Dealings in futures were found to be not only necessary but indispensable to dealers, importers, exporters and millers for the avoidance of speculation in grain.

(4) With the abolition of futures it became impossible to establish fixed standard prices, while prices which were made by

secret transactions were not of best service to the farmers.

(5) Finally, the law was of great benefit to one class—the interior dealers, who paid the farmers less and charged the consumers more.

To summarize: The grain was handled on wider margins; the farmers' price was lowered; the consumer was not benefited; and price fluctuations were increased.

So the law was repealed after four years of vigorous enforcement. It took the farmers' party four years to learn its lesson. The Germans went back to the system of future trading used on the leading American grain exchanges.

THE KANSAS WHEAT PRICE AND THE CONSUMER'S DOLLAR.

The federal government made a report on "Price of Wheat to Producers in Kansas" in 1914 (63d Congress, 3d Session, House Document 1271), and traced the wheat from the farm to the Liverpool buyer. Reducing the figures to the basis of 100 per cent, it was found that the farmer received 75 cents of the Liverpool importer's dollar. Expressed in the form of a table, the figures are as follows:

When Liverpool price was \$1 a bushel—

	Cts. per bu
Price received by farmer in Kansas...	75
Margin taken by country elevators....	2.5
Freight to seaboard	12.6
Freight, ocean passage	5.0
Expense of elevating, loading, etc.....	1.9
Interest and insurance	0.8
Shipper's profits	1.1
Exporter's profits	1.1

The government says, in summarizing this report:

"The cost of transportation is by far the largest element in the cost of marketing wheat. Of the total difference between the farm price and the Kansas City price, freight accounts for approximately 65 per cent. Of the spread between the farm price and the Liverpool price, railroad and ocean freights account for approximately 70 per cent.

"The weakest link in the chain of marketing Kansas wheat is the country elevator. Compared with the value and difficulty of service rendered, the margin taken by the country elevator is perhaps larger than that taken by any other middleman in the marketing of wheat. One special weakness is in the failure to use the future market to hedge holdings. Elevators frequently become congested with unhedged grain."

(Note.—Country elevators of the Northwest very commonly hedge their purchases. Country elevators in Kansas quite generally do not hedge. However, it must be borne in mind in this connection that over half the Kansas wheat is milled within the State at a nearby mill, and these Kansas flour mills, particularly the large ones, do hedge this wheat. It will be noted from the above official report that no other farm crop can show such low costs of handling. This is what organized speculation means.)

THE FUTURE PROBLEM.

How shall speculation be lessened? How shall prices be stabilized? This problem involves three separate but related problems, namely:

- (1) How finance the grain movement?
- (2) How provide adequate storage and where?

(3) How secure adequate transportation with no car shortages?

(4) How provide more orderly marketing throughout the 52 weeks?

Organized exchanges should prove the greatest help in solving these problems—as they have proved in the past.

APPENDIX.

MINNESOTA STATE LEGISLATURE, 1919.

Senate File No. 20 and Senate File No. 381, introduced by Hon. F. H. Peterson.

RESOLUTION, Adopted by the Farmers Grain Dealers' Association of Minnesota, in convention assembled at Minneapolis, February 18-19-20, 1919.

WHEREAS, There is under consideration by the Minnesota State Legislature at present Senate File No. 20 and also Senate File No. 381 (the latter being a correction of Senate File No. 20); and

WHEREAS, These bills proposed to completely destroy all speculative trading in grain for future delivery in the State of Minnesota, at the same time pretending to permit purchases and sales of grain for future delivery as hedges; and

WHEREAS, This bill would destroy future trading in the State of Minnesota and would deprive the farmers' elevator companies, country millers, etc., in Minnesota and the Dakotas of the opportunity of hedging their purchases of grain in Minneapolis or Duluth, forcing them to assume the speculative risk which they now avoid through hedging sales for future delivery in these markets, or it would force them to hedge their purchases of grain in Chicago, Milwaukee, Kansas City, St. Louis and other markets, in which they would not be able to make delivery, these hedging operations being, of course, very much more dangerous, and being in fact unsafe hedges on account of the inability to deliver the grain hedged in the markets where the hedges are placed; and

WHEREAS, By destroying future trading in the State of Minnesota the effect would be to greatly injure the market places at Duluth and Minneapolis, in which the spring wheat producer of the Northwest must market his grain, with the result that since the flour mills and linseed oil mills of Minnesota would be at such a great disadvantage compared with the flour mills and oil manufacturers of other states, the result must necessarily be to lower the price of grain at

Minneapolis and Duluth, as compared with other markets, on account of the increased risks which must be assumed by farmers' elevator companies, line elevator companies, terminal elevators, millers, linseed oil manufacturers, etc.; and

WHEREAS, The legislature of the State of Minnesota should not strike down or injure the market places in its own State and the result of the passage of such a law would be to drive business to other markets in other States, such as Chicago, St. Louis, Kansas City, Milwaukee, etc.; and

NOW, THEREFORE, BE IT RESOLVED BY THE FARMERS' GRAIN DEALERS' ASSOCIATION, in convention assembled, that Senate Files No. 20 and No. 381 are against the best interests of the farmers and farmers' elevator companies of the State of Minnesota.

AND BE IT FURTHER RESOLVED, That the officers of the Farmers' Grain Dealers' Association forward a copy of this resolution to each member of the Minnesota Senate and House of Representatives, requesting them to oppose with all their influence the passage of Senate Files No. 20 and No. 381.





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